

**TESTIMONY OF THE INTERNATIONAL ASSOCIATION OF
MACHINISTS AND AEROSPACE WORKERS IN CONJUNCTION WITH THE
U.S. INTERNATIONAL TRADE COMMISSION HEARING REGARDING
“CHINA: GOVERNMENT POLICIES AFFECTING U.S. TRADE IN SELECTED
SECTORS” (INVESTIGATION NO.: 332-491)**

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The International Association of Machinists and Aerospace Workers (IAM) represents over 700,000 active and retired workers in North America in a variety of industries including aerospace, shipbuilding and ship repair, electronics, woodworking, defense and transportation just to name a few. The IAM represents more aerospace workers than any other union in the world. IAM members work for prime and sub-tier contractors producing, assembling, and maintaining almost every imaginable product that is involved in the aerospace industry. IAM members have helped build some of the world's most successful aerospace companies—like Boeing, Lockheed Martin, Pratt and Whitney and General Electric just to name a few.

The IAM has a vested interest in ensuring the competitiveness of the U.S. aerospace industry. It also has a vested interest in working with government and industry to develop and implement policies that will ensure the maintenance and creation of jobs, here at home. Given our unique perspective, we are especially interested in the aerospace policies of other countries, especially with regard to how these policies have an impact on the U.S. aerospace industry and its workers. One country of particular interest is China and we welcome the opportunity to appear before you at today's Hearing, “China: Government Policies Affecting U.S. Trade in Selected Sectors.”

The aerospace and related industries are critical to our nation's economy and our physical security. In its Final Report, the Commission on the Future of the United States Aerospace Industry states that the industry “contributes over 15% to our gross domestic product and supports over 15 million high quality American jobs.”¹ U.S. aerospace is also identified as a major source of “technical innovation with substantial spillovers to other industrial and commercial sectors...high wage employment which spreads the benefits of rising productivity throughout the U.S. economy...”² The Aerospace Commission also noted the industries contribution to the nation's “economic,” “quality of life and scientific achievements...”³

Despite the importance of the aerospace industry, the deterioration of the U.S. industry at home for U.S. workers has continued at a dramatic rate. Several hundred

¹ Final Report of the Commission on the Future of the United States Aerospace Industry, November, 2002

² Id.

³ Id.

thousand jobs have been lost in the U.S. aerospace industries since 1990.⁴ While there are many reasons for the loss of these jobs, a contributing factor is that other countries have adopted national policies that have been instrumental in developing their own aerospace industries. Some of these policies rely on technology and production that is outsourced from the U.S.

As we have testified previously, a country that truly understands the importance of developing an aerospace industry is China.⁵ China also understands the importance of technology and production from other countries, like the U.S., to achieve its goal. As reported in the 2005 Annual Report of U.S. China Economic and Security Review Commission, "...Chinese firms have used their leverage to extract offsets—agreements to transfer some of the aircraft production along with related expertise and technology—as part of the deals."⁶ The report further concludes, "China nurtures its domestic aviation and aerospace industry by exploiting the international competition already in the industry."⁷

In testimony presented before this Commission in 1998, the International Association of Machinists and Aerospace Workers (IAM) singled out China for developing an effective industrial policy in an effort to develop its own "aerospace industry."⁸ IAM participants reported the enormous aerospace capacity that existed in China.⁹ Since that time, China's aerospace industry has grown.

Of particular concern to U.S. aerospace workers is the huge involvement of U.S. aerospace companies in China. According to one company, Boeing:

- Since the 1980s, Boeing has purchased over U.S. \$1 billion in aviation hardware and services from China.
- There are 4,200 Boeing airplanes with parts and assemblies built by China flying throughout the world today. This is 35 percent of the Boeing world fleet of approximately 12,000 airplanes.

⁴ See, Aerospace Industries Association Statistics, "Total Employment Calendar Years 1990 to Date".

⁵ Comments of the International Association of Machinists and Aerospace Workers before the U.S. -China Economic Security Review Commission. August 2001.

⁶ The 2005 Report of the U.S.-China Economic and Security Review Commission, November 2005, p. 30; The 2005 report also concludes: "While many U.S. firms have responded to global competitiveness challenges by outsourcing and offshoring, these individual corporate decisions do not address, and in some cases may conflict with, efforts to maintain productive capacities in industries important to U.S. economic leadership and vitality. This distinction between private and national interests is particularly pertinent with regard to the U.S. economic relationship with China, where the market may produce outcomes that are contrary to the U.S. national interest." p. 5.

⁷ *Ibid.*

⁸ Comments Of The International Association of Machinists And Aerospace Workers, AFL-CIO, In Response To The U.S. International Trade Commission's Request For Input Into The Investigation "Concerning The Global Competitiveness Of The U.S. Large Civil Aircraft Industry", March 1998; (IAM Comments")

⁹ *Id.*

- The new work for 737, 747-8, and 787 contracted in June 2007 is valued at about US \$ 500 million.
- ...Boeing and Boeing supplier partners have active supplier contracts with China aviation industry valued at well over \$2.5 billion.¹⁰

Boeing is, of course, just one of many aerospace companies investing in China's aerospace industry, including Boeing's rival, Airbus. As previously noted, China is working with Airbus in many different endeavors, including the A380 program. It also announced this past summer that it had broken ground on an assembly facility for the A320.

China's aerospace industry is not, however, complacent with its current programs. A few years ago there were reports that "China is likely to start developing its own large aircraft rather than rely solely on foreign giants Boeing and Airbus"¹¹ Those reports may just become reality. China's recently announced that it would be entering the large civil aircraft industry in the next twenty years.¹²

China's aerospace industry is also entering the space race. In an article headlined "The Next Space Race: China Heads to the Stars," *The New York Times* raises the "possibility" of a space race with China noting:

"The Chinese plan to send more astronauts into space next year, to launch a Moon probe within three years, and are aiming to land an unmanned vehicle on the Moon by 2010...."¹³

Last week, "China launched its first lunar probe...[and] moved a step closer to fulfilling its ambitions of one day reaching the moon."¹⁴

Given China's increased attention to aerospace and related industries, we welcome the Commission's investigation into China's government policies. While we are aware of some of the significant work programs that have been established in China by U.S. aerospace Companies and their suppliers, there is much that is still unknown.

Accordingly, we urge the Commission to conduct its investigation in the broadest possible terms, undertaking a comprehensive review of all government policies that directly or indirectly affect U.S. trade in the short and long term. Areas of inquiry should include the precise nature of subsidies and other forms of assistance that the government directs to aerospace and related industries. Other areas include the impact that China's aerospace industry will have on U.S. companies and U.S. workers, including suppliers.

¹⁰ See, "Boeing in China," <http://www.boeing.com/companyoffices/aboutus/boechina.html>

¹¹ USA Today.com, "China Studies Building its Own Large Aircraft," 03/15/04, extracted 09/09/04.

¹² "Beijing forges ahead with building its own industry," *Financial Times*, 6/18/07.

¹³ *The New York Times*, 1/22/04.

¹⁴ "China Sends Its First Probe For The Moon Into Space," *The New York Times*, 10/25/07.

Still other areas should include labor costs associated with China's aerospace industry, the undervaluation of China's currency, and the impact of these activities on trade, decisions to locate production in China, and U.S. workers.¹⁵

¹⁵ See, Section 301 Petition of the American Federation of Labor Congress of Industrial Organizations, Before the United States Trade Representative, 6/29/06; International Trade Union Confederation 2007 Annual Survey of violations of trade union rights, 2007; Robert Scott, "Costly Trade With China", EPI Briefing Paper, May 2007.